

Climate-driven insurance crisis

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The climate crisis is costing us a lot of money — higher utility bills, higher health-care costs, skyrocketing housing prices in some areas and nosediving home property values in others. Climate change, as well as the pollution that causes it and the natural disasters caused by it, is exacting a steeper and steeper financial toll on American households.

Amidst our evolving climate realities, many Americans are feeling the financial pinch of the climate crisis in insurance costs. Amy Bach, the executive director of United Policyholders, a non-profit founded to help insurance consumers, calls it “the price tag of climate change”.

Bach told CBS News Chicago, “It is not just the price tag, but it is also the pain of people and their homes flooding that didn’t used to flood. [The insurance companies] are saying, ‘Okay, how are we going to maintain the same level of profitability in the face of climate change?’ And how they are doing that is raising prices and cutting coverage — you know, shrinking the number of homes that they will insure in areas that they would deem vulnerable.”

In Illinois, roughly 250,000 customers insured by Allstate will pay at least 14 per cent more in homeowners insurance starting this month due to the impact of increasing severe weather. This comes after Allstate raised rates by 12 per cent last year.

And in California, the largest private insurer, State Farm, has asked the state’s Department of Insurance to approve an average rate increase of 22 per cent because of the devastation of the Los Angeles County wildfires. The request stated that as of February 1 the company had received more than 8,700 claims and already paid over \$1 billion to customers. And State Farm predicted it would pay out significantly more and the fires would “collectively be the costliest in the history of the company”.

As some companies look to rate hikes, many insurers’ answer has been to stop writing insurance altogether in areas they now see as carrying too much risk.

The recent wildfires in Southern California have further made clear the threat of insurance systems being upended by climate change. Home insurance not only provides protection against disasters, it is usually an essential requirement for getting a mortgage. So when insurers run for the hills — or away from the hills, in some cases — it helps deprive the next generation of would-be homeowners of that core piece of the American Dream. And it causes plenty of pain for existing homeowners as well.

Craig Kushen lives in Coto de Caza, California, on the edge of the fire-prone Cleveland National Forest. He has been in the thick of his state's insurance crisis for years — well before the most recent fires that ravaged Greater Los Angeles. His home insurer, Chubb, dropped his coverage about six years ago. Even back then, insurance companies were well aware the climate crisis was making certain areas increasingly vulnerable to natural disasters.

“My insurance through Chubb was roughly US\$4,000 when I was dropped. I was luckier than most in that I had really great insurance agents working to find me a new plan. But the policies they were showing me after I lost my Chubb policy were in excess of US\$20,000 — five times the amount. So I got the only insurance I could find at the time that was even somewhat reasonable, and that was the CalFAIR Plan.”

The California Fair Access to Insurance Requirements (FAIR) Plan was started 50 years ago to provide more options for Californians and protect consumers. According to the California Department of Insurance website, the FAIR Plan is available to those “who cannot obtain insurance through a regular insurance company”.

That means, as Kushen points out, that insurance companies and brokers throughout many parts of California are now routinely telling consumers their “only” option is the FAIR Plan.

But a safety net programme like California's FAIR Plan hardly solves the worsening insurance crisis. Maximum payouts under FAIR, originally capped at \$1 million, are currently capped at \$3 million. That is a lot in most places, but California is a state famous for high home prices — home prices which are already a central reason for the state's housing crisis. There are 33 cities in the San Francisco Bay area alone with median home prices above US\$2 million.

And FAIR is not a public plan, it is technically a private association controlled and operated by insurance companies. And as costs go up for FAIR to offer coverage and pay out claims, additional costs are incurred by the participating companies. And those costs get passed on to consumers in the form of rate

hikes. State Farm’s request for an emergency rate increase cited “tremendous strain” from the company’s “participation in FAIR Plan losses”.

The climate-driven insurance crisis is bound to get worse as long as the root cause of increasing extreme weather and disasters persists. From super-charged hurricanes and heavy “Lake Effect” snows caused by warmer waters to unprecedented wildfires brought on by extreme drought, the only real remedy is to quit our use of fossil fuels and transition to 100 per cent clean energy once and for all.